

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 AGRE-00 OES-06 SP-02 USIA-06

AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 L-03 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

XMB-02 OPIC-03 LAB-04 SIL-01 FEA-01 IO-13 NEA-10 /111 W

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 5705

C O N F I D E N T I A L CARACAS 13699

E.O. 11652: GDS

TAGS: ENRG, EFIN, VE

SUBJECT: VENEZUELA AND IMPACT OF OIL PRICE INCREASE ON LDCS

REF: A) STATE 282530; B) (74) CARACAS 12424; C) CARACAS 13684

1. SUMMARY-THE IMPACT OF HIGHER OIL PRICES ON OIL IMPORTING LDCS APPEARS TO BE OF REAL AND LONGSTANDING CONCERN TO THE GOV. IT IS STILL UNCLEAR WHAT, IF ANY, NEW INITIATIVE IN THIS REGARD MAY BE SIGNALLED BY PRESIDENT PEREZ'S SPEECH TO THE UN, BUT ONE POSSIBILITY WOULD BE A PROPOSAL THAT OPEC ADOPT A CONCESSIONAL FINANCING PROGRAM SIMILAR TO THE VENEZUELAN AGREEMENT WITH CENTRAL AMERICA. END SUMMARY.

2. GOV OFFICIALS HAVE REPEATEDLY EXPRESSED THEIR CONCERN OVER THE EFFECTS OF OIL PRICE INCREASES ON THE OIL IMPORTING LDCS. TWO YEARS AGO THE VENEZUELAN INVESTMENT FUND SIGNED AGREEMENTS WITH FIVE CENTRAL AMERICAN COUNTRIES ESTABLISHING A MECHANISM TO PROVIDE FINANCIAL ASSISTANCE TO THESE COUNTRIES TO COVER PART OF THE COST OF THEIR OIL IMPORTS (REF B).

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FOREIGN MINISTER ESCOVAR SALOM HAS REITERATED

THIS CONCERN IN RECENT VISITS TO CENTRAL AMERICA AND CARIBBEAN COUNTRIES. MINISTER OF MINES HERNANDEZ WAS QUOTED LAST WEEK AS SAYING THAT VENEZUELA'S MAJOR PROBLEM IN DETERMINING A JUST PRICE INCREASE FOR OIL WAS THAT THIS PRICE WOULD APPLY TO THE REST OF THE THIRD WORLD AS WELL AS TO THE MAJOR CONSUMERS, AND THAT AS YET THERE WAS NO EFFECTIVE COMPENSATORY MECHANISM TO AVOID RUINING THESE COUNTRIES WITH WHAT WOULD OTHERWISE BE A JUST AND LEGITIMATE PRICE FOR OIL. PRESIDENT PEREZ'S PROPOSAL IN HIS NOV. 16 SPEECH AT THE U.N. FOR AN "AUTOMATIC MECHANISM" FOR CONCESSIONAL FINANCING TO OFFSET THE COSTS TO THE POORER NATIONS OF FUTURE PRICE INCREASES MAY SIGNAL RENEWED VENEZUELAN EFFORT TO REDUCE THIS IMPACT (REF C).

3. AT THIS POINT, THE EMBASSY HAS NO INFORMATION AS TO WHAT, IF ANY, NEW INITIATIVE IN THIS REGARD IS BEING CONSIDERED BY THE GOV. ONE GOV OFFICIAL, COMMENTING TO AN EMBASSY OFFICER ON THE MEANING OF THAT PORTION OF THE PRESIDENT'S SPEECH, NOTED THAT CONCESSIONAL FINANCING COULD IN EFFECT RESULT IN A DUAL PRICE SYSTEM BY LOWERING THE REAL COST OF OIL TO THE RECIPIENTS OF THE FINANCING, AND REPEATED THE VIEW THAT THE OIL PRODUCERS HAD A MORAL OBLIGATION TO ASSIST THE OIL IMPORTING LDCS IN THE FACE OF HIGHER PRICES. HE ALSO MENTIONED THAT THESE COUNTRIES REPRESENT ONLY A SMALL PART OF WORLD OIL CONSUMPTION. IF THE GOV IS CONSIDERING A SPECIFIC PROPOSAL WITHIN OPEC, IT MAY WELL BE ALONG THE LINES OF VENEZUELA'S EXISTING FINANCING AGREEMENTS WITH CENTRAL AMERICA. THESE PROVIDE SPECIAL FINANCING FOR THE COST OF IMPORTED OIL IN EXCESS OF A BASE AMOUNT, E.E. \$6 PER BARREL, WITH REPAYMENT OF THE PRINCIPAL AND INTEREST ON THESE LOANS DIRECTED TO DEVELOPMENT PROJECTS IN THE PURCHASING COUNTRIES. SEE REF B) FOR ADDITIONAL DETAILS.

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